

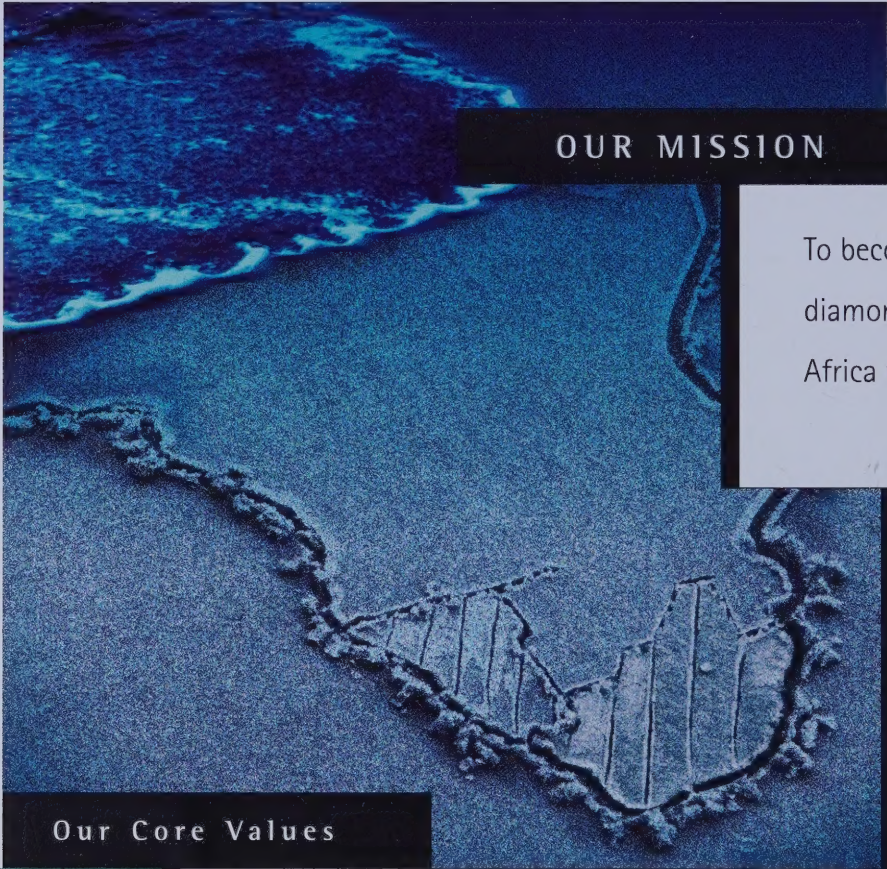


ANNUAL REPORT

NAMIBIAN MINERALS CORPORATION
1998



NAMCO



OUR MISSION

To become the premier marine diamond company in southern Africa through the application of leading edge technology; excellence in our operations; and transparency in our relationships.

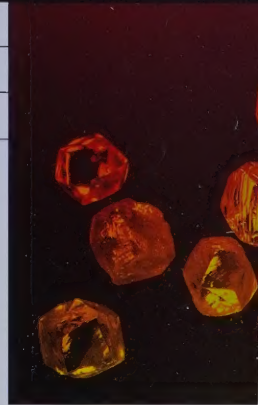
Our Core Values

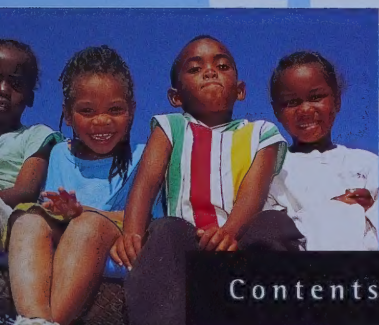
People Developing skills and rewarding achievement.

Community Living the principles of social and environmental responsibility.

Culture Creating a dynamic, focused and innovative team.

Principles Acting with integrity, fairness and respect.





Contents

2 . HIGHLIGHTS

4 . CHAIRMAN'S STATEMENT

6 . OPERATIONS

12 . EXPLORATION

14 . REGIONAL DEVELOPMENT

18 . DIRECTORS

19 . CORPORATE GOVERNANCE

20 . FINANCIAL REVIEW

22 . REPORT OF MANAGEMENT

23 . AUDITORS' REPORT

24 . FINANCIAL STATEMENTS

40 . SHAREHOLDER INFORMATION



Corporate

Strengthened Board and management with new appointments.

Increased human resources capability and improved health and safety training.

Maintained aggressive growth strategy focused on additional production and exploration.

Raised US\$20 million (gross) in new equity and debentures.

1998



Community

Accelerated community programmes in Namibia, focusing on health and education schemes.

Established environmental monitoring programme of offshore operation.



Operations

Completed design, construction and commissioning of the NamSSol mining system.

Commenced commercial production in April 1998 with a target of 150 000 carats per annum.

Progressed research and development on a new sampling system.

Committed to planning second vessel with increase in production capacity.



HIGHLIGHTS



Production and sales

Produced 25 896 carats in the first two months of mining.

Signed exclusive marketing agreement with IDC (Holdings) Ltd.

Generated US\$900 000 (gross) with first diamonds sales of 5093 carats.

Realised an average diamond price of US\$180 per carat.

CHAIRMAN'S STATEMENT

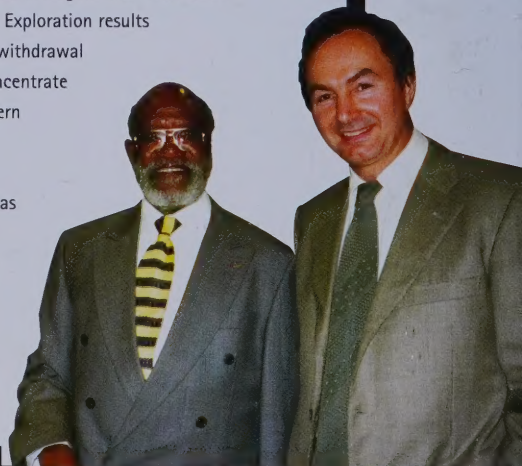
Namco has taken a major step forward in achieving the transition from exploration to marine diamond production. In three months of operation 40 000 carats of gem quality diamonds have been produced. Our NamSSol mining system ('NamSSol') is on track to meet its full year production target of 150 000 carats which places the Company in a leading position in the marine mining industry.

When I started Namco in 1992 the Namibian marine diamond mining industry was being spurred by the combination of technological development and political change. In this context, the Company entered the Industry determined to develop low cost, highly efficient mining technology in partnership with international engineering groups. Namco's management worked closely with the new Namibian Government to establish firm relationships based on transparency, trust and performance. This focused strategy has proved successful and will continue to drive the Company forward.

NamSSol is the product of collaboration between Namco's engineering team and Dresser Industries' company SubSea Offshore Ltd ('SubSea'). Construction of the machine was finished in October 1997. Total capital expenditure on the project was US\$13 million with US\$11.8 million spent in the period. Pre-production costs including charter hire and all mobilisation costs were US\$10 million. This was higher than anticipated given the extended build and commissioning period. After North Sea trials MV *Kovambo* arrived in Namibian waters in January 1998. Commissioning was completed in mid April 1998 with 25 896 carats mined by year end.

Reflecting the costs of moving to production and without the benefit of diamond sales, a loss of US\$7.1 million was recorded. This included the write off of exploration and other costs in Angola and Democratic Republic of Congo of US\$3.3 million. Exploration results in Angola proved disappointing. Our withdrawal was reinforced by the decision to concentrate on the rich coastal deposits of southern Africa.

In November 1997 working capital was increased by the placement of US\$5 million of 6% exchangeable debentures. At year end (31 May 1998) cash was US\$3.9 million and diamond stocks were 22 440 carats. Subsequent sales have realised US\$3.3 million.





We are marketing our diamonds through IDC (Holdings) Ltd., one of Antwerp's largest independent wholesalers. The quality of our goods is excellent, with average parcel prices ranging from US\$160 to US\$180 per carat. Demand for Namco's production remains strong.

Our Operations team continues to build familiarity with NamSSol and is carrying out ongoing improvements and refinements to the system. Encouraged by our experience, design specification has commenced for a proposed second generation mining system that would be deployed in Feature 20 adjoining our present mining area.

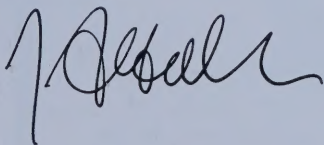
We have a highly professional and motivated team. This was further strengthened by Peter Looijen joining us in January 1998 as Director of Operations and Engineering. Peter spent 17 years with Boskalis, where he completed his career as General Manager, Southern Africa. Andrew Buxton accepted our invitation to join the Main Board, having been involved since 1994 as a Director of Namco UK. I also welcome Yusuf Surtee to the Board of Namco South Africa. Yusuf is a leading businessman whose counsel we value.

My thanks to all of our team for their commitment and admirable contribution to the successful start of the mining operation. I take this opportunity to acknowledge the role of Dresser's SubSea in sharing and realising our vision to build the first NamSSol.

Responsible social contribution and environmental management are high corporate priorities. Regular monitoring of the offshore operation is conducted onboard MV *Kovambo*. It is our intention to attain ISO 14 001 certification.

Namco has 6 600sq.km. of marine diamond concessions in Namibia and South Africa. We have spent six years and approximately US\$50 million in assessing part of its potential and in developing capability to mine the 2.65 million carats resource established from the initial sampling programme. Substantial exploration potential remains.

1998 has seen a decisive step into production. We are ready to build on this success.



J A Holberton
Chairman & Chief Executive Officer



1 Alastair Holberton with The Honourable Toivo ya Toivo MP, Minister of Mines and Energy.

2 Diamonds from Feature 19 in Namco's Luderitz Bay Grant.

OPERATIONS

The Company concentrated on establishing commercial production in its mining licence in the Koichab Prospect of its Luderitz Bay Grant during the year. Construction of NamSSol was completed and following commissioning, production started in April 1998. The Company's annual production target is 150 000 carats per annum. The decision has been made to increase production capability and plans for a second marine mining system, NamSSol Mark II, are underway.



Resource estimate

The first phase of exploration was successfully concluded in 1996 and resulted in the delineation of a total resource of 2.65 million carats (independently assessed by Marine & Coastal Geo-Consultants).

Summary of diamond resource estimates (carats)
Koichab Prospect, Luderitz Bay Grant
Saddle Hill Prospect, Hottentot Bay Grant

Prospect	Feature	Measured	Indicated	Inferred
Saddle Hill	HBG 022			406 000
	HBG 012			82 000
Koichab	LBG 011			9 000
	LBG 018			464 000
	LBG 019	220 684	19 000	626 000
	LBG 020	40 800	11 200	775 000
Total		261 484	30 200	2 362 000

The diamond resource estimates above were generated from a sampling programme using the Namrod bulk sampling tool developed in collaboration with Boskalis Offshore. 700 samples of 10sq.m. each were completed to yield an average resource grade of 0.62 carat/sq.m.

In addition, three bulk samples of approximately 140sq.m. each were excavated in Feature 19 of the Luderitz Bay Grant. The grades of these bulk samples were significantly higher than the resource average grade. A total of 2 315 carats was recovered during the sampling programme.



1 Suction nozzle with water jets which fluidise the sediment material.

2-4 Launch of NamSSol from the stern of MV Kovambo.

4

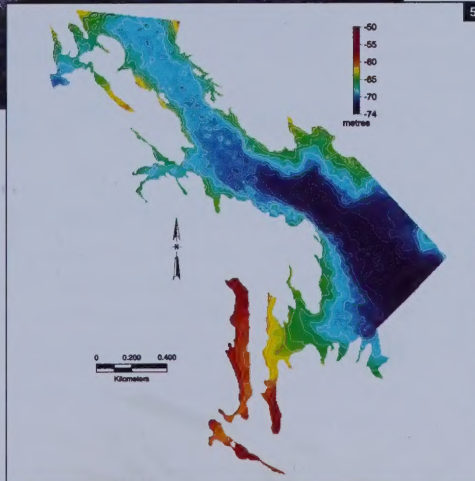


Mining licence

The Company was granted Mining Licence 51 by the Namibian Ministry of Mines and Energy in October 1997. The licence covers an area of 136sq.km. and has an initial term of 15 years (expiry date 30 January 2012). The Company's annual licence fee is N\$5 000. The licence is granted subject to the Company conducting its mining operations in substantial conformity to the mining plan, schedule and budget in the original application, and to the Company's Environmental Management Plan which has been approved by the relevant Ministries.

5

5 Bathymetric plan view of Feature 19 of the Luderitz Bay Grant showing the sea depth to bedrock.





Development of the NamSSol mining system

In collaboration with Namco's in-house engineering team, SubSea was awarded the contract to design, manufacture, commission and initially operate an integrated high production underwater mining system. Dosco Overseas Engineering Ltd was responsible for the development of the mining vehicle's tracking (locomotion) system.

NamSSol represents a significant advance in marine mining technology. Unlike conventional airlift methods of marine mining using suction hose, NamSSol is a highly controlled system with the capability to clean sediment material to bedrock with more than 90% efficiency. It is estimated that the NamSSol's pumping efficiency is several times that of an airlift system. It has been purpose built for Namco's Namibian concessions.



1 The completed NamSSol transported from the SubSea base to Aberdeen Harbour, October 1997.

2 SubSea's Project Manager Alan McWhirter, left and NamSSol Superintendent Ralph Sheldon, right at the SubSea base.

NamSSol is a remotely operated seabed crawler incorporating powerful dredging capability and accurate control. It is mounted on twin tracks, with all functions and movements remotely controlled from MV Kovambo and is deployed and recovered from the stern of the vessel. Its large articulated suction boom excavates the sediment from the seabed and the high powered dredge pump transports it to the surface through a buoyant flexible riser hose. Additional design features include water jets and a ripping tooth attached to NamSSol's suction head. Its operating specification is:

- To mine a sediment depth of 5m.
- To operate in water depths of up to 150m.
- To recover greater than 90% of all diamonds in the mined area.
- To operate for an average of 20 hours per day, 300 days per annum and not less than 10 years.
- To mine an area of between 300 000-400 000sq.m. per annum at an average 1000sq.m. per day in average sediment thickness of 3.3m.

- To process not less than 1 million cu.m. of solids per annum.
- To operate in sea swells of up to 6m.

NamSSol was manufactured and assembled in Aberdeen, Scotland and completed ex works in October 1997. The machine was sea freighted to Hull where the launch and recovery system was installed on board MV *Kovamba*.

Initial sea trials were carried out in the North Sea before departure for Namibia. On site commissioning and calibration of the various systems commenced in the Luderitz Bay Grant in January 1998. The commissioning process revealed difficulties with the handling system, resulting in excessive launch and recovery time. In addition, the production controls of NamSSol required modifications to achieve improved operating efficiency.

To effect these improvements, a port call was scheduled in Cape Town for part of March and April 1998 to undertake the following work:



- Install a riser (delivery) hose restraining system.
- Install an independent riser launch and recovery system.
- Install access arrangement to the launch and recovery system.
- Modifications to the suction boom and jet water arrangement of NamSSol.
- Improve NamSSol's positioning systems.

The vessel returned to Namibian waters mid-April 1998 where improved operational efficiencies were immediately apparent and production scale mining commenced.

Namco took operational control and responsibility from SubSea in May 1998 and continues to utilise key SubSea personnel.



3 Construction of NamSSol, Aberdeen.

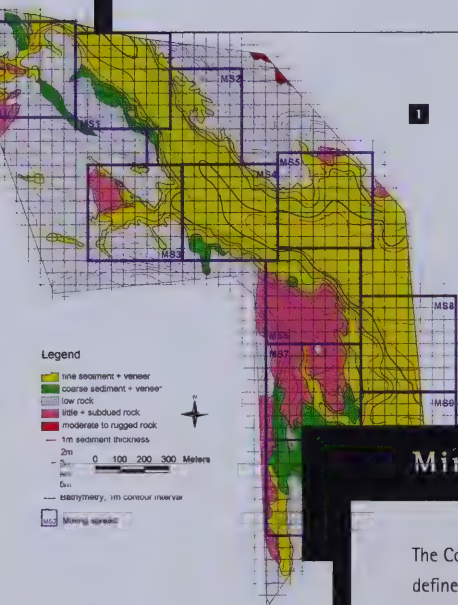
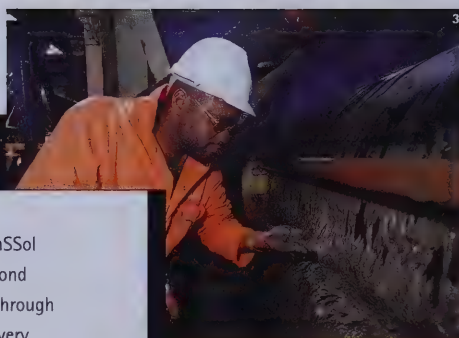
4 Exploration and Development Director Roger Daniel, left and Operations and Engineering Director Peter Looijen, right.

MV Kovambo

MV Kovambo is a self-contained floating mine plant with NamSSol delivering large quantities of seabed sediment (including diamond bearing gravels) to the vessel, where it is processed on board through a 50 tons per hour processing plant before final diamond recovery.

The Company has installed sophisticated security systems which have been commended by the Namibian Protective Resources Unit.

The operation employs 116 crew on a monthly rotating basis. Namco has a policy of local employment wherever possible and currently employs 36 Namibians and 27 South Africans in its offshore operations, with ongoing recruitment and training programmes.



Mine plan

The Company's mine plan calls for systematic exploitation of the defined resource/reserves at a rate of 150 000 carats per annum. The annual production rate is derived from ore production parameters in combination with average resource grade.

The Company anticipates that life of mine in Mining Licence 51, based on current resource estimates and production rates, is in excess of 15 years.

The vessel operates on a four point mooring system allowing an effective operating area of 400 x 400m. per anchor spread. Mining blocks have been defined on a 50 x 50m. basis. The average sediment thickness has been assumed as 3.3m.

The mine plan was approved by the relevant Namibian authorities before the award of Mining Licence 51.



Production results

A total of 25 896 carats was recovered from the first two months of production. The Company is encouraged by early recoveries and diamond grades to date have exceeded independent estimates and predictions. Average stone size from this production is 0.36 carats per stone, confirming sampling results.

Operating efficiency has improved steadily since mining commenced. Further improvements are expected with the development of operator skill and experience, and ongoing technical refinement.

In May 1998 the Company sold a parcel of 5 093 carats of diamonds (produced during its exploration and mining operation) for gross proceeds of approximately US\$900 000 at an average value of US\$180 per carat.

A royalty of 10% of the Namibian Government valuation is paid on all diamonds produced.



Second vessel

The Company is committed to significantly increasing its total carat output and anticipates the introduction of a second production system by the end of calendar year 1999. Design work has commenced on NamSSol Mark II which is likely to have a greater production capacity than NamSSol.

The proposed second mining area will be Feature 20 of the Koichab Prospect in the Luderitz Bay Grant, where sampling established an estimated resource of 827 000 carats. Feature 20 lies approximately 2km. from the present mining area and is within Mining Licence 51.

Outlook

Initial production experience has been encouraging and the Company is on course to achieve its annual production target of 150 000 carats. Maximising production remains a priority for the operations team.

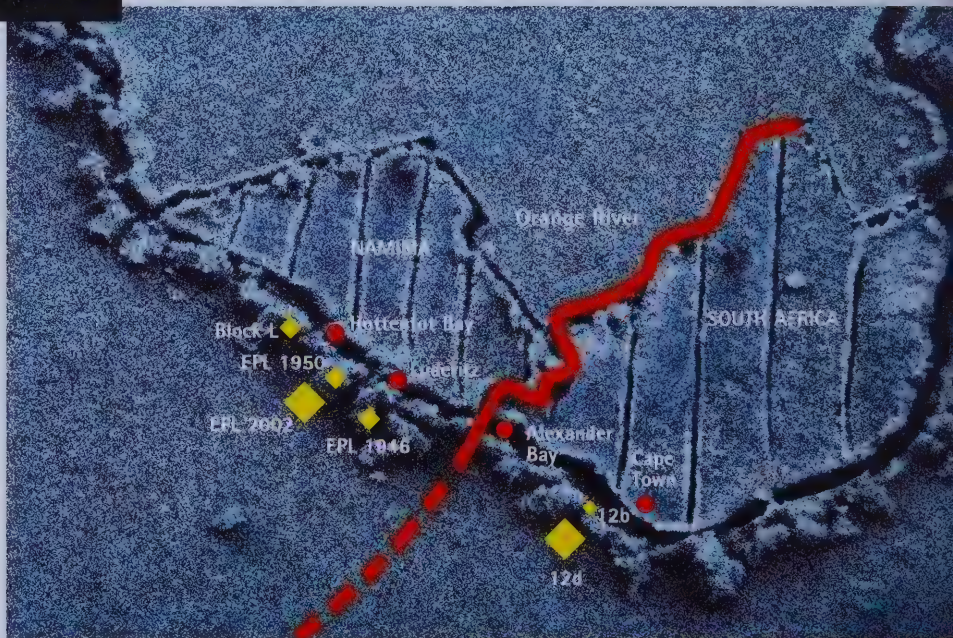
1 Mine plan map of Feature 19, Luderitz Bay Grant.

2 Checking the controls of the X-ray machine onboard which scans the final concentrate and ejects the diamonds for final sorting.

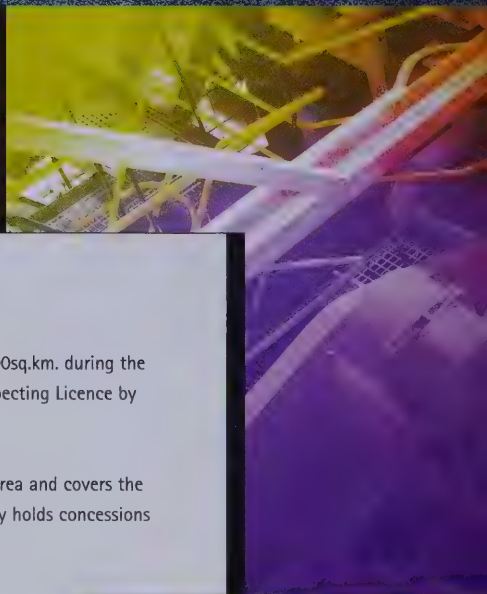
3 Processing of the sediment material onboard MV Kovamba.

4 Final sorting and counting of diamonds at the end of a day's production.

EXPLORATION



The Company pursued its objective to find marine opportunities in the region throughout 1998. An additional concession was awarded in Namibia, opportunities were identified in South Africa and planning for further exploration programmes in the Luderitz Bay and Hottentot Bay Grants is underway.



New concession

The Company's concession holding increased to 6 600sq.km. during the year with the award of an additional Exclusive Prospecting Licence by the Namibian Ministry of Mines and Energy.

The concession known as Block L is 1 000sq.km. in area and covers the 100-200 metre water depth range. Namdeb currently holds concessions within this depth range to the south of Block L.

Preliminary investigations show that Block L contains geological features comparable with parts of the Company's Luderitz Bay Grant.

Namco was awarded Block L in partnership with Guinas Mining (Pty) Ltd and Angonam Exploration (Pty) Ltd.

1 Senior Geologist Dr. Charles Morrison and Technical Systems Administrator Peter Friedinger in the Cape Town office.

2 Geologist Herman Labuschagne assesses the quality of gravels from the screening process onboard MV Kovamba.



South Africa

Detailed and regional geophysical surveys have been completed on the Company's 12b and 12d Concessions. As previously reported, limited sampling by the Namrod bulk sampling tool and divers in the shallower areas has been undertaken in 12b concession. Small scale diving exploration in 1994 and 1995 recovered approximately 50 carats of diamonds with an average stone size of 0.99 carats. This exceptional stone size and production from the adjacent 12a shallow water operations confirms the general belief that the area is highly prospective. Further exploration is planned and investigation into appropriate technology to efficiently explore and mine in this geological terrain is being carried out.

With its history of consistent gem quality diamond production, the Province of the Northern Cape has been identified as a potential exploration opportunity for the Company. The region includes the state-owned diamond mine Alexkor, which produces approximately 150 000 carats per annum. During the year Namco representatives visited the Province to discuss possible developments and involvement.

2



Angola/Democratic Republic of Congo

Limited river dredging and diver exploration was conducted in the Company's Angolan concessions during the year. Although a total of 410 carats was recovered in the Company's Group O concession in Lunde Norte, operational experience and results indicated that the concessions were not economically viable. Operations have been terminated. In Democratic Republic of Congo, the Company was unable to reach satisfactory agreement with its prospective partners and no further projects are envisaged in the country.

Exploration – 1999 and beyond

The Company's exploration strategy for the coming year will be focused on marine diamond opportunities and will involve conducting programmes around the existing marine projects. While building additional production capability is the major source of growth, the Company is committed to the development of a fast track, low cost exploration programme to renew and increase its mineable resource.

The Company's Research and Development team is completing the feasibility of a purpose built sampling tool. Detailed design has been undertaken for a tool which suits the varied geological conditions of the Company's concessions and grants and which operates at a faster rate than previous sampling methods. It is expected that an additional vessel will be chartered for this programme, leaving *MV Kovambo* as a dedicated mining vessel.

Previous exploration identified additional areas of resource potential in the Luderitz Bay Grant and in the Hottentot Bay Grant. Sampling in these areas will be a priority; more than 1 400 sites have been identified for the initial stage of the programme.

It is important to note that to date less than 3% of the Luderitz Bay Grant (520sq.km.) and Hottentot Bay Grant (400sq.km.) in Namibia has been sampled.

REGIONAL DEVELOPMENT

Namco has been operating in Africa for six years and as a new generation mining company understands the need to integrate economic, social and environmental considerations into its operations. Namco believes in considering the aspirations of all stakeholders and the Company is recognised for its commitment to consultation and participation of these groups. The increased development of community and employee programmes will remain a high corporate priority as the Company continues to grow.



Community programmes

The Luderitz community was the focus of Namco's community work this year. The mining operation is located approximately 12 nautical miles from the town and the Company has begun to develop important relationships within the region.

In partnership with members of the Luderitz Rotary Club International the Company completed several projects to cater for basic and essential needs. Toilet facilities, educational materials, mattresses and toys were donated to a day crèche which cares for more than 70 children. To establish a soup kitchen for the unemployed, elderly and school children of Luderitz, funds were provided for a freezer, pots, utensils and basic food requirements. In addition, the Company supports a literacy campaign for inmates at the local prison to ensure better employment prospects for the future.

1 Children at the Wesley Mission day crèche using bags and equipment donated by Namco.

2 Namco has provided funds for the local community to establish a soup kitchen in Luderitz, Namibia.

The mining industry has an important role to play in the prevention of illegal diamond dealing in Namibia. In recognition of this role Namco donated a fast patrol boat to the Luderitz Branch of the Protective Resources Unit.



To raise awareness of Namibian marine mining technology internationally, the Company has sponsored the production of a First Day Cover entitled Marine Mining in the 21st Century which will be sold at Expo '98 in Portugal as part of the Year of the Oceans campaign. Proceeds from the sale of the First Day Cover will be donated to the Namibian Expo exhibition stand.

The Company continued to support the Indira Ghandi Maternity Clinic which is being built under the guidance of President Nujoma. The Clinic will provide modern health care for mothers and babies in Onemanya, a remote rural region of northern Namibia. Bursary support was maintained to university students during the year.



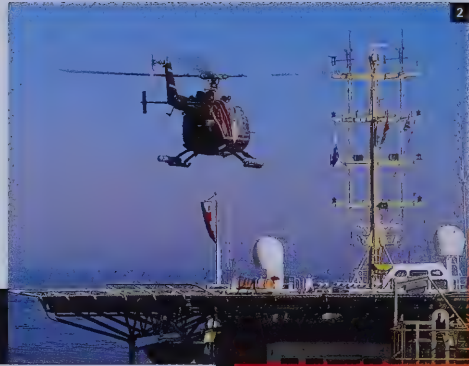
NAMCO

MARINE MINING IN THE 21ST CENTURY



3 Institutional investor visit to State House with His Excellency The President Dr. Sam Nujoma and The Honourable Toivo ya Toivo, MP, Minister of Mines and Energy.

4 The first day cover issued in Namibia in May 1998 commemorating the importance of marine mining in the country. Namco's NamSol mining system is depicted on the N\$2.50 stamp.



Environment

An Environmental Assessment and Management Plan Report was completed and accepted by the relevant Namibian authorities including the Ministry of Mines and Energy and the Ministry of Environment and Tourism. The Report concluded that there were no impacts significant enough to preclude mining in the Luderitz Bay and Hottentot Bay Grants. Monitoring to assess impacts such as plume sediment levels, oxygen levels and disturbance to benthic and marine communities is carried out on a regular basis. Findings are reported to the Namibian authorities twice a year.

Tailings (the residue material that remains after processing the diamonds consisting of cobbles, gravels and silts) are discharged at the surface of the ocean. This material descends rapidly as a plume, reaching neutral buoyancy with depth and settles out over the immediate vicinity. The Company conducts regular profile measurements in the tailings impact area.



1 Firefighting personnel used onboard MV Kovambo, in place for helicopter arrival and departure.

2 Helicopter approaching the landing pad onboard the vessel. All crew changes are conducted by helicopter every 28 days.

The Company recognises the importance of engaging stakeholders and co-operation with other Industry members in the development of its operation. It is represented on the Namibian Marine Diamond Mines Association ('NMDMA') with Regional Director Kombadayeddu Kapwanga appointed as Chairman for 1998-1999. The NMDMA provides a forum for discussion on the management of the marine resource. Mr Kapwanga is also Vice-President of the Council of the Chamber of Mines in Namibia and a National Planning Commissioner.

The Company has developed a widely communicated environmental policy, which applies to management, employees and contractors, and requires commitment from all parties. Under this policy, the Company is committed to balancing the protection of human health and the natural environment with the need for economic growth. Environmental performance responsibilities are co-ordinated through the Company's Environmental Manager.

Employees

The Company recognises the importance of its employees and during the year expanded its human resources function by appointing a Personnel Manager in its Namibian office.

On board MV *Kovambo*, several safety initiatives were introduced during the year including a video on helicopter transfer procedures for all crew and visitors to the vessel. All crew are provided with vessel familiarisation training and offshore safety training which includes fire fighting, marine survival, first aid and helicopter emergency training.

3 Staff in Namco's new headquarters in Windhoek.



Namco offices

During the year Arena Mining (Pty) Ltd changed its name to Namco Namibia (Pty) Ltd and Nautical Diamonds (Pty) Ltd changed to Namco South Africa (Pty) Ltd.

Namco Namibia moved its premises to Robert Mugabe Avenue in Windhoek. The new office provides full administrative support to the mining operation.

DIRECTORS

Alastair Holberton

Chairman of the Board and Chief Executive Officer

Mr Alastair Holberton (age 49) has more than 20 years mining industry experience in Australasia and Africa. He founded the Namco Group in 1992 after an invitation from President Nujoma to visit Namibia and participate in its diamond industry. He has maintained excellent relationships in the Country. Mr Holberton lives in Cape Town.

Howard Beck, QC

Non-Executive Director

Mr Howard Beck (age 65) is an independent businessman. Until 1989, Mr Beck practised corporate/securities law as a senior partner of the Toronto law firm of Davies, Ward and Beck. He joined the Namco Board in June 1996. He serves as a Director of a number of major public and private companies. Mr Beck lives in Toronto.

Andrew Buxton

Non-Executive Director

Mr Andrew Buxton (age 63) has more than 30 years mining related experience. Mr Buxton spent 10 years as Finance Director at Rio Tinto (formerly RTZ) and was the Deputy Chairman of Rossing Uranium in Namibia. He joined the Namco Board in September 1997. He is a Director of several public companies including Norwich Union plc. and the Mercury World Mining Trust. Mr Buxton lives in London.

Carlo Civelli

Non-Executive Director

Mr Carlo Civelli (age 50) is an independent businessman. He is the Managing Director of Clarion Finanz, a company specialising in investment banking. With his background in banking and finance, Mr Civelli serves on the Board of several public companies listed in Canada and the United States. He joined the Namco Board in October 1993. Mr Civelli lives in Zurich.

Charles Purdy

Director, Chief Financial Officer and Company Secretary

Mr Charles Purdy (age 40) joined the Namco Group in August 1993 and the Namco Board in October 1993. Mr Purdy is a Chartered Accountant with a background in banking. He was formerly with Coopers and Lybrand. Mr Purdy lives in London.

Neil McDougall

Non-Executive Director

Mr Neil McDougall (age 43) has been a Partner in the legal firm Francis Thompson & Aspden for over 10 years. Mr McDougall acts as Director and Trustee of various companies and trusts. He joined the Namco Board in September 1995. Mr McDougall lives in Cape Town.



CORPORATE GOVERNANCE

The directors of Namco believe that corporate governance applied correctly adds value to the Group. Practices and policies have been further enhanced during the year.

Board of Directors

The board of directors of the Company oversees major corporate developments including strategic planning and business development, monitoring operational and financial risks and reviewing annual operating plans and budgets.

Board members are based in Canada, South Africa, Switzerland and the United Kingdom. As such, two board meetings are held in person per year and additional meetings are held if required. All material decisions are made by the board of directors. All directors receive a monthly report and accounts.

The board comprises six directors, including four non-executive directors. The non-executive directors are leaders in their field and have held senior executive positions in other corporations. They specifically contribute their experience from finance, mining, business and law. The Chief Executive Officer and the Chief Financial Officer of the Company are also directors.

Directors are initially appointed by the full board, subject to election by shareholders at the next annual general meeting. The board of directors elects the Chief Executive Officer and the Chief Financial Officer on an annual basis.

To assist the board in fulfilling its responsibilities, it has established audit, remuneration and nominations committees consisting principally of non-executive directors.

Audit Committee

The Audit Committee is comprised of three non-executive directors. The main responsibilities of the Committee are to review the Company's accounting policies and management procedures, ensuring internal controls are adequate and reviewing the scope and planning of the Company's external auditors. The Committee also reviews quarterly financial statements and annual financial statements prior to their approval by the board of directors.

Remuneration Committee

The Remuneration Committee is comprised of two non-executive directors and the Chief Executive Officer.

The main role of the Remuneration Committee is to approve remuneration for the executive officers of the Company. The committee oversees the issuance of stock options for senior employees.

Nominations Committee

The Nominations Committee is comprised of three non-executive directors and meets as required to deal with nomination of new directors. The committee is also responsible for evaluating the performance of the board of directors and making recommendations to the board with respect to corporate governance and practices of the board of directors.

Management of business risk

The directors of the Company are committed to the management of risk as it relates to health and safety, environment, operational and financial matters. Each operation is responsible for the implementation of risk management including the identification of risks, controls, prevention, emergency procedures and recovery planning. The Company provides support from its corporate office to assist in risk management and obtains insurances to limit the financial impact of major losses.

Management of financial risk

The Company has established financial risk policies to manage financial exposures which arise in the ordinary course of business.

Keeping shareholders informed

The directors are committed to ensuring that shareholders are informed of all major developments affecting the Company's performance. The Company reports to shareholders through its quarterly and annual reports. Procedures are in place to ensure that material and price sensitive information is reported to the Nasdaq National Market, The Toronto Stock Exchange and the Namibian Stock Exchange on a timely basis and in accordance with disclosure requirements.



FINANCIAL REVIEW

Principal activities of the Company

The Company's principal activity during the year was the development, construction and commissioning of its marine mining system prior to commencing production in April 1998.

The Company also undertook diamond exploration in Angola. Following analysis of exploration results it was decided not to continue with its Angolan operations.



Operating results

The consolidated loss for the year was US\$7 079 000 (1997: US\$2 965 000) or US\$0.19 (1997: US\$0.09) per share. Income for the period was US\$1 060 000 (1997: US\$769 000) being interest received of US\$688 000 (1997: US\$693 000) and gains on short term investments of US\$372 000 (1997: US\$76 000).

Expenses in the year were US\$8 139 000 (1997: US\$3 734 000). All exploration and development work undertaken was expensed in the period. The cost of exploration in Angola was US\$2 563 000 (1997: US\$390 000). Development costs of US\$691 000 (1997: US\$290 000) associated with other projects in Angola and in the Democratic Republic of Congo have been expensed.

Amortization costs have increased as a result of the capital expenditure on the marine mining system.

Professional fees include the legal and agent fees associated with the 6% exchangeable debentures issue completed in December 1997. General office costs, including salaries, increased in 1998. Included were one off costs, such as recruitment and training of personnel for the offshore mining operation. Items such as the warehouse required for storing spares for the offshore operation will be of an ongoing nature. Certain other costs will not be incurred in subsequent periods, such as office costs in Angola.

Resource property costs capitalized during the year were US\$9 851 000 (1997: US\$3 460 000). This is greater than expected resulting in part from the delays in commencing production. The original target date was November 1997. The principal elements of the pre-production costs were the charter hire of the vessel, offshore personnel and fuel.

Pre-production diamonds sold in May 1998 generated income, net of government royalty, of US\$835 000 which has been recorded as a reduction of resource property costs to date. This is in accordance with the Company's accounting policies.

Liquidity and capital resources

During the year the Company completed an international public offering and a private placement in Namibia of 3 930 000 common shares at US\$3.82 per share to generate net proceeds of US\$12 942 000. The placement was completed in June 1997. In December 1997, the Company completed a private placement of US\$5 000 000 of 6% exchangeable debentures.

The proceeds from these fund raisings have been used to commence mining in the Company's Luderitz Bay Grant off the Namibian coast. Capital expenditure in the period totalled US\$11 846 000, the principal amount relating to the marine mining system. Capital expenditure commitments at year end are minimal.

Stock options to purchase an aggregate of 495 000 common shares in the range of Can\$1.36 to Can\$6.53 per common share are set to expire by 31 May 1999. Total funds that could be raised from the exercise of warrants and the options set to expire by 31 May 1999 would be approximately US\$1 900 000.

Surplus funds are held in United States dollars and sterling, two of the Company's operating currencies. Diamond sales are in United States dollars. Holdings in

the Namibian dollar and South African rand have been minimised during the period.

Subsequent to year end the Company has completed the sales of its first diamonds from production, selling 20 319 carats in Antwerp for gross proceeds of approximately US\$3 300 000. Diamond inventory at the year end totalled 22 440 carats and were carried at cost, based on the average cost of production of US\$1 000 000. Advance receipts on inventory sales at year end were \$2 000 000.

Review of operations

Pages 4 to 17 of this Annual Report should be considered as forming part of this section.

Risks

The Company's activities are subject to significant and ongoing risks.

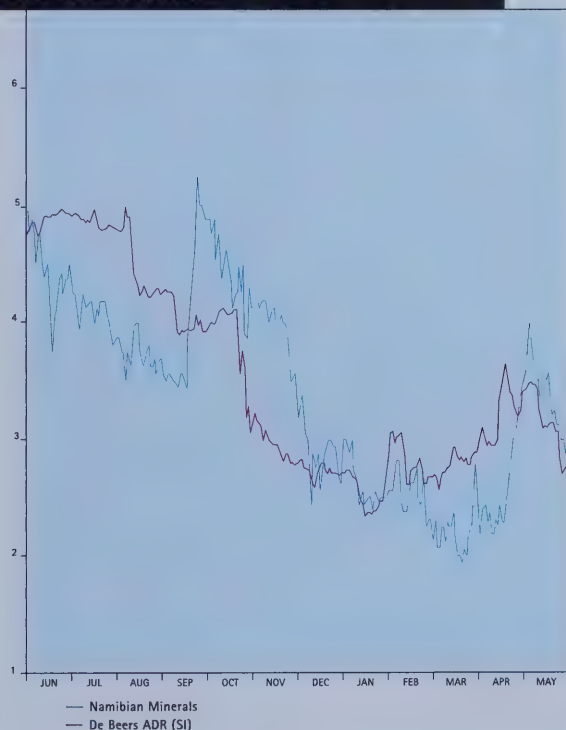
Large scale marine diamond exploration and mining is still in the initial stages of development. Production to date supports the Company's targeted production levels. Future revenues will be subject to prevailing diamond prices and sustaining continuous production over a much longer period than that achieved to date.

Both Namibia and South Africa are members of the Common Monetary Area ('CMA'). Exchange control regulations continue to be eased but the flow of funds to countries outside the CMA is still subject to restrictions. Political risk in Namibia and South Africa is considered to be low.

Future developments

The Company believes, in the absence of unforeseen circumstances, that the cashflow being generated from current production is sufficient to continue its mining operation, conduct additional sampling work on its grants and concessions off the coast of Namibia and South Africa and commence design work on NamSSol Mark II.

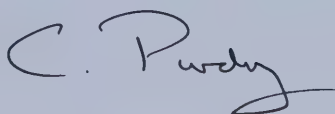
Namco Share Price Trading USD (NASDAQ)
June 1997 – May 1998



On behalf of the Board of Directors of Namibian Minerals Corporation



J A Holberton
Chairman & Chief Executive Officer



J C F Purdy
Chief Financial Officer

31 May 1998
United States Dollars

The accompanying consolidated financial statements and all of the data included in this annual report have been prepared by and are the responsibility of the management of Namibian Minerals Corporation. The consolidated financial statements have been prepared in accordance with accounting principles generally accepted in Canada and reflect management's best estimate and judgements based on currently available information. The Company has developed and maintains systems of internal accounting controls in order to assure, on a reasonable and cost-effective basis, the reliability of its financial information and that the assets are safeguarded from loss.

The Board of Directors is responsible for ensuring that management fulfils its responsibilities for financial reporting and internal control. The Board exercises its responsibilities through the Audit Committee of the Board which has to satisfy itself that management's responsibilities are properly discharged and to review the financial statements before they are presented to the Board of Directors for approval. The Company's external auditors have full and unrestricted access to the Audit Committee.

The consolidated financial statements have been audited by Deloitte Et Touche, Chartered Accountants. The report outlines the scope of their examination and opinion on the consolidated financial statements.

London, England
13 July 1998



J A Holberton
Chairman, Chief Executive Officer and Director



J C F Purdy
Chief Financial Officer and Director

31 May 1998
United States Dollars

The Shareholders
Namibian Minerals
Corporation

We have audited the consolidated balance sheets of Namibian Minerals Corporation as at 31 May 1998 and 1997 and the consolidated statements of loss and deficit and changes in financial position for each of the years in the three year period ended 31 May 1998 and for the period from 19 October 1993 to 31 May 1998. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at 31 May 1998 and 1997 and the results of its operations and the changes in financial position for each of the years in the three year period ended 31 May 1998 and for the period from 19 October 1993 to 31 May 1998 in accordance with generally accepted accounting principles in Canada.

Canada
13 July 1998



Deloitte & Touche
Chartered Accountants

Statement 1

		1998	1997
		\$000	\$000
Assets	Current		
	Cash and short-term investments – <i>Statement 3</i>	3,902	8,323
	Accounts receivable	484	1,493
	Prepayments	69	244
	Inventories (<i>Note 4</i>)	1,543	–
	Marketable securities (<i>Note 5</i>)	612	1,622
		6,610	11,682
	Resource property costs (<i>Note 6</i>)	28,582	18,731
	Capital assets, net of amortization (<i>Note 7</i>)	14,147	4,018
	Other assets	210	253
		49,549	34,684
Liabilities	Current		
	Accounts payable and accrued liabilities	3,347	912
	Advance receipt on inventory sales	2,000	–
	Current portion of long-term debt (<i>Note 8b</i>)	278	–
		5,625	912
	Long-term debt (<i>Note 8b</i>)	257	–
		5,882	912
Shareholders' equity	Share capital (<i>Note 8</i>)	53,811	40,444
	Exchangeable debenture (<i>Note 8b</i>)	4,637	–
	Contributed surplus	459	459
	Cumulative foreign exchange adjustment	(1,664)	(754)
	Deficit – <i>Statement 2</i>	(13,576)	(6,377)
		43,667	33,772
		49,549	34,684

On behalf of the board:

J A Holberton
Chairman, Chief Executive
Officer and Director

J C F Purdy
Chief Financial Officer
and Director

13 July 1998

Consolidated Statements of Loss and Deficit
for the period ended 31 May
United States Dollars

Namibian Minerals Corporation
(A development stage company)

		From 19 October 1993 to 31 May 1998	1998	1997	Statement 2 1996
		\$000	\$000	\$000	\$000
Income	Interest received	2,975	688	693	626
	Gain on sale of short-term investments	1,098	372	76	505
		4,073	1,060	769	1,131
Expenses	Amortization – capital assets	1,764	959	344	354
	– goodwill	53	12	12	12
	Development costs	981	691	290	–
	General office costs, including salaries	6,497	2,272	1,469	1,133
	Exploration costs	2,953	2,563	390	–
	Professional fees	2,245	733	567	207
	Travel and promotional	2,886	887	662	621
	Debenture interest	22	22	–	–
		(17,401)	(8,139)	(3,734)	(2,327)
Loss for the period		(13,328)	(7,079)	(2,965)	(1,196)
	Deficit – beginning of period	(128)	(6,377)	(3,412)	(2,216)
	Accretion on equity component of exchangeable debenture (net of tax of US\$52,000)	(120)	(120)	–	–
Deficit – end of period		(13,576)	(13,576)	(6,377)	(3,412)
			1998	1997	1996
			\$	\$	\$
Loss per share for period			(0.19)	(0.09)	(0.05)
Weighted average number of shares outstanding (in thousands)			37,690	31,324	25,941

Consolidated Statements of Changes in Financial Position
for the period ended 31 May
United States Dollars

Namibian Minerals Corporation
(A development stage company)

	From 19 October 1993 to 31 May 1998	1998	1997	Statement 3 1996
Cash resources provided by (used in)	\$000	\$000	\$000	\$000
Operating activities				
Loss for the period	(13,328)	(7,079)	(2,965)	(1,196)
Items not affecting cash				
Amortization – capital assets	1,764	959	344	354
– goodwill	53	12	12	12
Gain on marketable securities	(1,098)	(372)	(76)	(505)
Changes in non-cash working capital	4,343	4,917	(1,454)	770
	(8,266)	(1,563)	(4,139)	(565)
Investing activities				
Resource property costs	(28,582)	(9,851)	(3,460)	(9,423)
Capital assets	(16,761)	(11,846)	(2,604)	(117)
Foreign exchange adjustment	(1,664)	(910)	(15)	(741)
Marketable securities	566	1,382	(1,221)	432
Investments	(181)	–	(145)	73
Net liabilities on acquisition of subsidiary	(115)	–	–	–
	(46,737)	(21,225)	(7,445)	(9,776)
Financing activities				
Share capital	53,717	13,367	12,114	6,860
Debenture	5,000	5,000	–	–
Issuance of share capital for debt	94	–	–	–
Contributed surplus	86	–	–	–
	58,897	18,367	12,114	6,860
Net increase/ (decrease) in cash	3,894	(4,421)	530	(3,481)
Cash position – beginning of period	8	8,323	7,793	11,274
Cash position – end of period	3,902	3,902	8,323	7,793

31 May 1998
United States Dollars**1. Description of business**

The Company, through its subsidiaries, is engaged principally in marine diamond exploration and mining off the coast of Namibia and marine diamond exploration off the coast of South Africa.

2. Directors

The directors of the Company at the end of the period and at the date of signing the consolidated balance sheet are as follows:

J A Holberton
J C F Purdy
A E Buxton
H L Beck
C Civelli
N G McDougall

3. Significant accounting policies

These Consolidated Financial Statements have been prepared in accordance with accounting principles generally accepted in Canada ("Canadian GAAP"), which, in the case of the Company, conform in all material respects with accounting principles generally accepted in the United States of America ("U.S. GAAP"), except as explained in Note 13. The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

These Consolidated Financial Statements have been prepared in United States Dollars. A significant proportion of the Group's cost base is in United States Dollars and production which is valued in United States Dollars commenced in the period. It is considered that the United States Dollars is the Company's new functional currency. Previously, the Company had reported in Canadian Dollars. The prior period financial statements have been translated at the exchange rate as at 1 June 1997 of US\$1 equivalent to C\$1.3794.

The significant accounting policies used in these Consolidated Financial Statements are as follows:

a) Consolidation

These financial statements include the accounts of the Company and its subsidiaries ("the Group"). The principal subsidiaries (wholly owned unless indicated otherwise) are as follows:

- Namco B.V., Netherlands
- Namco Services Limited, United Kingdom
- Namibian Minerals Corporation Limited, Gibraltar
- Namco (Gibraltar) Limited, Gibraltar
- Namco Namibia (Pty.) Limited, Namibia
- NMS Management Services (Pty.) Limited, Namibia
- Namco South Africa (Pty.) Limited, South Africa
- N.D. Charterers (Pty.) Ltd, South Africa
- Pinette Investments (Pty.) Limited, South Africa

b) Cash

Cash includes short-term money market instruments with terms to maturity, at the date of issue, not exceeding ninety days.

31 May 1998

United States Dollars

3. Significant accounting policies *(continued)***c) Amortization**

The Group provides for amortization on the following basis:

Goodwill	straight-line over 10 years
Buildings	straight-line over 40 years
Furniture & office equipment	straight-line over 3 to 6 years
Leasehold improvements	straight-line over 5 years
Motor vehicles	straight-line over 3 to 5 years
Plant & machinery	straight-line over 1 to 10 years

Capital assets are recorded at cost.

d) Resource property costs

The Group has commenced mining on one of its mineral properties and is in the process of exploring its other mineral properties (as detailed in note 6).

Exploration and development costs are capitalized on an individual prospect basis until such time as an economic reserve is defined and mining is commenced or the mineral property abandoned.

The recoverability of the amounts capitalized for the undeveloped mineral properties is dependent upon the determination of economically viable reserves and the ability to obtain the necessary financing to complete the developments.

Capitalized costs will be amortized subsequent to commercial production on a unit-of-production basis over the estimated reserves. The unit-of-production will be carats mined.

Management regularly reviews the carrying value of resource property costs for impairment in value. Any resulting write downs are charged to earnings.

e) Foreign currency translation

Financial statements of the Company's foreign operations are translated using the current rate method. Adjustments arising from this translation are deferred and recorded under a separate caption of Shareholders' Equity and are included in income only when a reduction in the investment in these foreign operations is realised.

f) Marketable securities

Marketable securities are carried at the lower of cost or market value.

g) Investments

Investments are carried at cost unless in the opinion of the directors there has been a permanent impairment in value. At such time the value of the investment is written down to estimated net realisable value.

h) Pre-production stock

Recoveries of diamonds prior to the commencement of commercial production on a mineral property are valued at nil. On sale to third parties, income received, net of all selling costs, is credited against resource property costs.

31 May 1998
United States Dollars

3. Significant accounting policies (continued)

i) Goodwill

Goodwill arising on acquisitions is amortized on the straight-line basis over ten years. Management regularly reviews the carrying value of goodwill for impairment in value.

j) General exploration costs

General exploration costs incurred when investigating for properties outside the Group's area of interest are written-off until a resource property interest is acquired.

k) Loss per share

Loss per common share is computed on the basis of the weighted average number of shares outstanding.

l) Fair value of financial instruments

The Company believes, based upon current information, that the carrying value of the Company's cash and cash equivalents, accounts receivable and liabilities, approximates fair value due to the short maturity of those instruments.

The fair value of the exchangeable debentures is estimated using discounted cash flow analysis based on borrowing rates currently available for similar terms and maturities. The exchangeable debentures have been segregated into their debt and equity components. The financial liability component, representing the present value of the future interest payments, is included in long-term debt. The remaining component, representing the value ascribed to both the holders' option to convert the principal balance into common shares and the Company's right to pay the principal amount of the instrument into common shares, is classified in shareholders' equity as equity component of exchangeable debentures. These components are measured at their respective fair values at the dates the exchangeable debentures were originally issued.

m) Inventories

Inventories are valued at the lower of cost and net realisable value. Cost is determined on the first-in first-out principle, with diamond inventory from commercial production at the average cost of production and supplies inventory at actual cost.

4. Inventory

	1998 \$000	1997 \$000
Diamonds	1,000	-
Supplies inventory	543	-
	<u>1,543</u>	<u>-</u>

5. Marketable securities

The mid-market quoted value of the marketable securities as at 31 May 1998 was \$612,000 (1997: \$2,720,000)

31 May 1998
United States Dollars

6. Resource property costs

a) Namibia and South Africa

The Group holds the rights as specified on the following off-shore mineral properties:

Concession/Grant	Description	Type of Licence
14/2/3/2/51 (Namibia)	Mining Licence No. 51	Diamond mining rights
14/2/1/4/2/1946 (Namibia)	Luderitz Bay Grant	Diamond prospecting rights
14/2/1/4/2/1950 (Namibia)	Hottentot Bay Grant	Diamond prospecting rights
14/2/1/4/2/2002 (Namibia)	2002 Grant	Diamond and phosphorite prospecting rights
12b (South Africa)	12b Concession	Precious stones prospecting rights
12d (South Africa)	12d Concession	Precious stones prospecting rights

In the second half of 1996 an application for a mining licence was made for an area within the Luderitz Bay Grant. Mining Licence No. 51 was granted for a 15 year period commencing 31 January 1997. During the year, the building of the Group's first mining system was completed and installed on the *MV Kovambo*, which is on a five year charter which commenced 30 June 1997. Production in Mining Licence No. 51 commenced in April 1998.

The 12d Concession and 2002 Grant have been surveyed. Interpretation of the detailed survey results is ongoing.

The Group's onshore property known as the Orange River Grant was relinquished in the period.

Resource property costs in the period can be analysed as follows:

	1998 \$000	1997 \$000	1996 \$000
Survey	-	755	-
Bulk sampling	-	1,902	8,406
Pre-production costs	9,976	-	-
Salaries and benefits	494	622	483
Travel and accommodation	196	211	174
General operating costs	20	104	360
Sale of pre-production stock	(835)	(134)	-
	9,851	3,460	9,423
Balance - beginning of period	18,731	15,271	5,848
Balance - end of period	28,582	18,731	15,271

31 May 1998
United States Dollars**6. Resource property costs**
(continued)

Resource property costs to date are split between mineral properties as follows:

Namibia/South Africa	1998 \$000	1997 \$000
12b	2,592	2,592
Hottentot Bay	6,615	6,615
Luderitz Bay	18,619	8,768
2002	378	378
12d	378	378
	28,582	18,731

The resource property costs of \$18,619,000 for the Luderitz Bay Grant relate to Mining Licence No. 51 and will be amortized over the current estimated reserves of 2,165,684 carats as from 1 June 1998.

b) Angola

In the Lunde Norte and Lunde Sul provinces of Angola, the Group entered into a joint venture agreement which entitled it to a minimum 42.5% interest in three diamond concessions, covering a total area in excess of 600 km². Initial exploration commenced in October 1997 in two of the three concessions and was completed in January 1998. On analysis it was decided not to continue and the Group has withdrawn. All acquisition and exploration costs, including fixed assets, have been written-off in the period (\$2,563,000).

7. Capital assets

The major categories of property and equipment and related accumulated amortization are as follows:

	Cost \$000	Accumulated Amortization \$000	1998 Net Book Value \$000	1997 Net Book Value \$000
Furniture & office equipment	828	372	456	323
Land & buildings	776	167	609	861
Leasehold improvements	239	116	123	51
Motor vehicles	197	75	122	83
Plant & machinery	13,659	822	12,837	2,700
	15,699	1,552	14,147	4,018

31 May 1998
United States Dollars

8. Share capital

a) Details are as follows:

	Authorised common shares without par value	Issued and fully paid	Amount \$000
Balance at commencement of exploration stage	15,000,000	3,388,961	8
Debt settlement		868,710	94
Share capital consolidation	(5,000,000)	(3,164,474)	-
Increase in authorized capital	90,000,000	-	-
Acquisition of subsidiary (i)		6,462,500	-
Escrow shares cancelled		(519,446)	-
Escrow shares issued		703,125	8
Private placement for cash		10,288,250	12,687
Exercise of warrants		265,500	202
Balance at 31 May 1994	100,000,000	18,293,126	12,999
Exercise of warrants		3,210,001	2,443
Private placement and public offer		2,437,800	6,000
Exercise of options		37,500	28
Balance at 31 May 1995	100,000,000	23,978,427	21,470
Exercise of options		236,633	273
Private placement (ii)		2,250,000	6,587
Acquisition of subsidiary (i)		2,337,500	-
Balance at 31 May 1996	100,000,000	28,802,560	28,330
Exercise of options		615,916	523
Private placement (iii)		2,000,000	11,591
Acquisition of subsidiary (i)		2,200,000	-
Balance at 31 May 1997	100,000,000	33,618,476	40,444
Public offer and private placement (iv)		3,930,000	12,942
Exercise of options		247,034	245
Agent commission (b)		48,000	180
Balance at 31 May 1998	100,000,000	37,843,510	53,811

(i) Issued in accordance with the terms of the reverse takeover which was completed on 19 October 1993 and through which the Company acquired 100% of the issued outstanding shares of Namibian Minerals Corporation Limited, Gibraltar.

(ii) A private placement was completed in February 1996. Gross proceeds were \$5,075,000 (costs of placement were nil).

A private placement was completed in March 1996 on the Namibian Stock Exchange at a price of N\$11.40 (\$3.12) per share. Gross proceeds were \$1,559,000 (costs of placement were \$47,000).

31 May 1998

United States Dollars

8. Share capital (continued)

(iii) A private placement of 2,000,000 special warrants at \$6.16 (Can \$8.50) each was completed in June 1996. Gross proceeds were \$12,324,000 (costs of placement were \$733,000). Each special warrant was exercised in September 1997 for no additional consideration into one unit to consist of one common share and one half common share purchase warrant. In total, 2,000,000 common shares and 1,000,000 common share purchase warrants were issued. The common share purchase warrants expired on 26 June 1998.

(iv) An international public offer and a private placement in Namibia of 3,930,000 common shares at a price of \$3.82 per share was completed in June 1997. Gross proceeds were \$15,013,000 (cost of placement \$2,071,000)

b) 6% exchangeable debenture:

The Company completed on 4 December 1997 through a wholly owned subsidiary, Namco (Gibraltar) Limited, the private placement of \$5,000,000 of 6% Exchangeable Subordinated Debentures, maturity date 4 December 1999. The debentures are exchangeable at the option of the debenture holder into common shares of the Company at the conversion price of \$3.75 in the year to 4 December 1998 and at \$4.50 in the year to 4 December 1999. The Company cannot redeem the debentures in the period to 4 December 1998 and thereafter only at par plus accrued and unpaid interest if the weighted average price at which the common shares have traded on NASDAQ during 30 consecutive trading days, ending not more than five days prior to the giving of notice of redemption, is at least \$6.50. The Company may satisfy the obligation to pay the principal amount of the debenture on redemption or at the maturity date by issuing common shares at a conversion price of 95% of the weighted average price of the common shares on NASDAQ for 30 consecutive trading days ending not more than five days prior to redemption or maturity. In consideration of the Company issuing the warrants as detailed in 8 d), the Company may at its own discretion, satisfy the obligation to pay the interest amount on the debenture in cash or common shares at a conversion price of the weighted average price of the common shares on NASDAQ for 30 consecutive trading days ending not more than five days prior to the payment date. The agents' fee payable was 6% of the principal amount of the debenture, settled by the issuance of 48,000 common shares at a conversion price of \$3.75 per common share and \$120,000 in cash. No debenture has been redeemed or converted up to 31 May 1998.

The liability component of \$535,000 represents the present value of future interest payments due under the terms of the debenture. Of this amount, \$278,000 is due in the next twelve months.

The equity component \$4,517,000 represents the value ascribed to both the holder's option to convert the principal into common shares and the Company's right to pay the principal amount of the debenture in cash or common shares.

Interest expense is determined by applying a discount rate of 8% against the outstanding liability component. The equity component of the debentures, represented by the Company's right to pay in common shares, is being accreted to the maturity value through periodic charges to retained earnings, net of tax. The accretion on this equity component net of taxes was \$120,000.

31 May 1998
United States Dollars

8. Share capital (continued)

c) Options granted and outstanding:

Number of options granted	Expiry date	Exercise price Can\$
20,000	23 October 1998	2.15
190,000	1 November 1998	1.44
5,000	22 November 1998	1.36
15,000	14 December 1998	1.92
265,000	28 May 1999	6.53
40,000	30 October 1999	5.99
30,000	11 December 1999	6.03
70,000	3 February 2000	5.16
195,000	7 July 2000	5.74
40,000	29 September 2000	6.74
100,000	29 September 2000	3.50
120,000	26 January 2001	3.70
1,230,000	2 April 2001	5.56
2,320,000		
	1998	1997
Outstanding at the beginning of period	2,197,034	2,854,617
Granted	470,000	175,000
Exercised	(247,034)	(615,916)
Expired	(100,000)	(216,667)
Outstanding at the end of period	2,320,000	2,197,034

Subsequent to the year end, 125,000 stock options were granted to employees with an exercise price of Can\$4.35 per share and an expiry date of 4 June 2001.

d) Warrants granted and outstanding:

Subsequent to the year end the Company issued on 10 June 1998, 166,667 common share purchase warrants, exercisable at \$3 each into one common share of the Company, and an expiry date of 2 November 1998. The warrants were issued to the holders of the 6% Exchangeable Debenture in consideration of the Company having the right to pay the interest in either cash or common shares.

9. Income taxes

The Competent Authorities of Revenue Canada and the United Kingdom Inland Revenue have determined that as of 19 October 1993, the Company's tax residency moved from Canada to the United Kingdom.

The financial statements are prepared in accordance with Canadian generally accepted accounting principles, the results of which in this case do not vary from those derived by following Statement of Financial Accounting Standard No.109, Accounting for Income Taxes (SFAS 109). SFAS 109 requires that deferred income taxes reflect the tax consequences on future years of differences between the tax bases of assets and liabilities and their bases for financial reporting purposes. In addition, SFAS 109 requires the recognition of future tax benefits, such as net operating loss carry-forwards, to the extent that realisation of such benefits are more likely than not.

31 May 1998

United States Dollars

9. Income taxes (continued)

A reconciliation of the income tax benefit (provision) with amounts determined by applying the statutory income tax rates to the consolidated income (loss) before income taxes is as follows for the years ended 31 May:

	1998 \$000	1997 \$000	1996 \$000
Tax benefit at statutory rate	3,845	1,037	455
Operating losses with no current tax benefit	(3,845)	(1,037)	(455)
	-	-	-

The Company's deferred tax items as of 31 May are as follows:

	1998 \$000	1997 \$000
Deferred tax assets		
Net operating loss carry forwards		
South Africa and Namibia	2,664	1,872
Canada	107	141
UK	1,181	10
Total deferred tax assets	3,952	2,023
Deferred tax liabilities	(802)	12
Valuation allowance	(3,150)	(2,035)
	-	-

In South Africa and Namibia, the Group has income tax losses of not less than \$7,000,000 available to reduce future taxable income. In Canada and the United Kingdom there are tax losses to carry forward. The losses in Canada of approximately \$267,000 are allowable only against future Canadian operations and the losses available for carry forward in the United Kingdom are approximately \$3,900,000.

10. Related party transactions

a) Dowling Investments Limited ("Dowling"), a company under the control of the Rochford Trust, a Holberton family trust, has entered into an agreement with Pinette Investments (Pty.) Limited ("Pinette"), a subsidiary, to allow certain paintings, furnishings and art works Dowling owns to be made available to Pinette to furnish the property owned by Pinette in Cape Town. For use of the paintings, furnishings and art work, Pinette has agreed to a rental based on the interest accruing on the agreed total value of all items loaned with the applicable interest rate being the prevailing South African prime bank rate. The amount charged in rental in the period was \$48,000 (1997: \$22,300; 1996: \$11,800).

b) Neil McDougall became a Director of the Company at the Annual General Meeting on 15 September 1995. Mr. McDougall is a partner of the Company's South African attorneys, Francis Thompson & Aspden. All fees are charged on an arm's length basis. The amount payable to Francis Thompson & Aspden for the period is R355,000 (1997: R324,000; 1996: R295,000) excluding disbursements and Advocate's fee.

31 May 1998
United States Dollars

10. Related party transactions (continued)

c) In December 1997, the Company completed the private placement of \$5,000,000 of 6% Exchangeable Subordinated Debentures. The agents to the transaction were Clarion Finanz AG, of which Carlo Civelli is a director. The agents' fee was 6% of the principal amount, which was settled by the issuance of 48,000 common shares at a conversion price of \$3.75 per share and \$120,000 in cash.

11. Segmented information

The Company operates in one industry segment, diamond mining. A significant proportion, 90% and above, of the long lived assets, which includes capital assets and resource property costs, are held in Namibia. Cash and marketable securities are principally held within the corporate group in Europe.

Expenditure incurred in Namibia and South Africa with respect to mining exploration is deferred and the loss and deficit is due to corporate expenditure.

12. Commitments

Commitments are reflected elsewhere in these financial statements except as follows:

- a) The Company, through a wholly owned South African subsidiary, is committed to the chartering of a vessel for five years as from 30 June 1997 at an annual cost of approximately \$4,325,000.
- b) The Company, through wholly owned subsidiaries, is committed to rental payments for property occupied of approximately US\$14,000 per month until 2002.

13. Reconciliation between Canadian and U.S. generally accepted accounting principles ("GAAP")

These Consolidated Financial Statements have been prepared in accordance with Canadian GAAP, which, in the case of the Company, conform in all material respects with U.S. GAAP, except as set forth below:

a) Adjustments to U.S. GAAP

Adjustments to net loss	1998 \$000	1997 \$000	1996 \$000
Net loss for the period Canadian GAAP	(7,079)	(2,965)	(1,196)
Gain (loss) on securities (i) ✓ <i>SPR 15</i>	(1,098) <i>19</i>	900	(180)
Interest on exchangeable debenture (ii) <i>48</i>	(124)	-	-
Consulting expense (b) <i>96. other →</i>	(56) <i>65</i>	(49)	(846)
United States GAAP	(8,357)	(2,114)	(2,222)

Basic loss per common share United States GAAP (iii)	(\$0.22)	(\$0.07)	(\$0.09)
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Weighted average shares outstanding (in thousands) (iii)	37,690	30,986	25,499
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Adjustments to cash flow	1998 \$000	1997 \$000	1996 \$000
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Investing activities			
Canadian GAAP	(21,225)	(7,445)	(9,776)
Foreign exchange translation (c)	250	(119)	(86)
United States GAAP	(20,975)	(7,564)	(9,862)

We now have a line item for this in our sheets for

31 May 1998
United States Dollars13. Reconciliation
between Canadian and
U.S. generally accepted
accounting principles
("GAAP") (continued)

Adjustments to cash flow (continued)	1998 \$000	1997 \$000	1996 \$000
Financing activities			
Canadian GAAP	18,367	12,114	6,860
Foreign exchange translation (c)	(250)	119	86
United States GAAP	18,117	12,233	6,946
Adjustments to assets, liabilities and shareholders' equity		1998 \$000	1997 \$000
Assets – marketable securities			
Canadian GAAP		612	1,622
Gain (loss) on securities (i)		–	1,098
United States GAAP		612	2,720
Long-term debt			
Canadian GAAP		257	–
Exchangeable debenture (ii)		4,641	–
United States GAAP		4,898	–
Shareholders' equity			
Share capital			
Canadian GAAP		53,811	40,444
Foreign exchange translation (c)		283	533
United States GAAP		54,094	40,977
Exchangeable debenture			
Canadian GAAP		4,637	–
Accretion during period		(120)	–
Long-term debt		(4,517)	–
United States GAAP	–	–	–
Contributed surplus			
Canadian GAAP		459	459
Consulting expense (b)		951	895
United States GAAP		1,410	1,354
Cumulative foreign exchange adjustment			
Canadian GAAP		(1,664)	(754)
Foreign exchange translation (c)		(283)	(533)
United States GAAP		(1,947)	(1,287)
Accumulated deficit during development stage			
Canadian GAAP		(13,576)	(6,377)
Gain (loss) on securities (i)		–	1,098
Exchangeable debenture (ii)		(4)	–
Consulting expense (b)		(951)	(895)
United States GAAP		(14,531)	(6,174)

31 May 1998

United States Dollars

**13. Reconciliation
between Canadian and
U.S. generally accepted
accounting principles
("GAAP") (continued)**

(i) Marketable securities

U.S. GAAP requires trading securities to be carried at fair value. Changes in fair value are charged against or credited to income, while under Canadian GAAP such items are carried at cost or, where market value is lower, at market value.

(ii) Exchangeable debenture

U.S. GAAP requires the exchangeable debenture to be recognised as a liability with interest being charged to operations, while under Canadian GAAP such items are segregated into their debt and equity components with interest payments being predominantly treated as settlement of the liability portion. The equity component of the debentures, representing the Company's right to settle the obligation in common shares, is accreted to the face value through periodic charges to deficit, net of tax.

(iii) Loss per share

In February 1997 the Financial Accounting Standards Board issued Statement No. 128, Earnings Per Share (SFAS 128), which established new standards for computing and presenting earnings per share effective for fiscal years ending after 15 December 1997. With SFAS 128, Primary Earnings Per Share is replaced by Basic Earnings Per Share, which is computed by dividing income available to common shareholders by the weighted average number of shares outstanding for the period. In addition, SFAS 128 requires the presentation of Diluted Earnings Per Share, which includes the potential dilution that could occur if dilutive securities were exercised or converted into common stock. The computation of Diluted Earnings Per Share does not assume the conversion or exercise of securities if their effect is anti-dilutive. Under this method the weighted average number of shares outstanding for each of the periods presented is not significantly different from that calculated under Canadian GAAP.

b) Stock based compensation

For U.S. GAAP purposes the Company accounts for stock-based compensation to employees and directors, under Accounting Principles Board Opinion No. 25, Accounting for Stock Issued to Employees (APB 25), using the intrinsic value based method whereby compensation cost is recorded for the excess, if any, of the quoted market price, at the date granted. As at 31 May 1998 no compensation cost has been recorded for any period under this method.

Statements of Financial Accounting Standards No. 123, Accounting for Stock-Based Compensation (SFAS 123), issued in October 1995, requires the use of the fair value based method of accounting for stock options. Under this method, compensation cost is measured at the grant date based on the fair value of the options granted and is recognized over the exercise period. During the years ended 31 May 1998, 1997 and 1996, the Company issued options to individuals other than employees and directors which under SFAS 123 must be recognized as a consulting expense in the period they are issued.

SFAS 123, however allows the Company to continue to measure the compensation cost of employees in accordance with APB 25. The Company has therefore adopted the disclosure-only provision of SFAS 123.

The following pro forma financial information presents the net loss for the year and the loss per common share had the Company adopted SFAS 123 for all stock options issued to employees and directors.

	1998 \$000	1997 \$000	1996 \$000
Net loss for the period United States GAAP	(8,357)	(2,114)	(2,222)
Additional stock based compensation costs	(957)	(353)	(4,992)
Pro forma net loss	(9,314)	(2,467)	(7,214)
Pro forma loss per share	(\$0.25)	(\$0.08)	(\$0.28)

31 May 1998
United States Dollars**13. Reconciliation
between Canadian and
U.S. generally accepted
accounting principles
("GAAP") (continued)**

Using the fair value method for stock-based compensation, additional costs of approximately \$956,866, \$352,678 and \$4,992,213, would have been recorded for the years ended 31 May 1998, 1997 and 1996 respectively. This amount is determined using an option pricing model assuming no dividends are to be paid, vesting occurring on the date of grant, a weighted average volatility of the Company's share price of 87.61% and a weighted average annual risk free rate of 5.05% (1997: 5.05%; 1996: 6.83%).

c) Change in functional currency

A significant proportion of the Group's cost base is in United States Dollars and with the commencement of production, the Company has adopted the United States Dollars as its functional currency, effective 1 June 1997. In years prior to 1998, the Company's functional currency was the Canadian Dollar. As a result of this change, the Company, for Canadian GAAP purposes, restated amounts for the years ended 31 May 1997 and 1996 from Canadian Dollars to United States Dollars whereby the foreign currency amounts were translated into United States Dollars using the exchange rate in effect at 1 June 1997.

Under U.S. GAAP, this change in the functional currency would require a restatement of the Company's financial statements for the years ended 31 May 1997 and 1996 whereby monetary assets and liabilities would be translated in to United States Dollars at the exchange rate in effect at the balance sheet date and non-monetary assets, liabilities and share capital at the exchange rates in effect at the time of acquisition or issue. Revenues and expenses would be translated at rates approximating exchange rates in effect at the time of the transactions.

d) Statement of cash flows

Under U.S. GAAP presentation of a statement of cash flows is required which reflects only cash transactions relating to operating, financing and investing activities. Under Canadian GAAP, non-cash financing and investing activities are required to be presented in addition to cash flows in the statement of changes in financial position. The statement of cash flows under U.S. GAAP would also disclose payments relating to interest and income taxes during each period presented. The Company made no payments relating to interest and income taxes during the periods presented.

e) Recent pronouncements

In June 1997, the Financial Accounting Standards Board issued Statements No. 130, Reporting Comprehensive Income (SFAS 130), which is required to be adopted for fiscal years beginning on or after 15 December 1997. SFAS 130 establishes standards for the reporting and display of comprehensive income and its components in a full set of general purpose financial statements. Reclassification of financial statements for earlier periods presented is required. The impact of SFAS 130 on the Company's financial statements is not expected to be material.

In June 1997, the Financial Standards Board issued Statements No. 131, Disclosures About Segments of an Enterprise and Related Information (SFAS 131), which is required to be adopted for fiscal years beginning on or after 15 December 1997. SFAS 131 establishes new standards for the reporting of segmented information in annual financial statements and requires the reporting of certain selected information on interim reports to shareholders. The impact of SFAS 131 on the Company's financial statements is not expected to be material.

SHAREHOLDER INFORMATION

Stock Exchange Listings and Symbols

Nasdaq National Market	(NMCOF)
Namibian Stock Exchange	(NMC)
The Toronto Stock Exchange	(NMR)

1998 Share Price

High: US\$5.50

Low: US\$1.94

Share Capital

Shares Authorised	100 000 000
Shares in Issue	37 843 510
Shares Fully Diluted	41 274 621

Information as at 31 May 1998.

For further detail see Note 8 of the Financial Statements.

Share Registrar

Montreal Trust, Canada

Transfer Secretaries (Pty) Ltd., Namibia

Investment Bankers

Nomura International plc

Brokers

HSBC Simpson McKie (Pty) Ltd.

Yorkton Securities Inc.

Annual General Meeting

Namco Namibia (Pty) Ltd., 114 Robert Mugabe Avenue, Windhoek, Namibia

Wednesday 30 September 1998 at 11.00am

Shareholder Enquiries

Shareholders with enquiries about the Company or wishing to be added to the quarterly report mailing list should contact:

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CORPORATE DIRECTORY

Directors and Senior Officers:

Alastair Holberton	Chairman, Chief Executive Officer and Director
Charles Purdy	Chief Financial Officer, Director and Company Secretary
Howard Beck	Non-Executive Director
Andrew Buxton	Non-Executive Director
Carlo Civelli	Non-Executive Director
Neil McDougall	Non-Executive Director

Directors of Subsidiary Companies:

Peter Looijen	Operations and Engineering Director
Roger Daniel	Exploration and Development Director
Kombadayeddu Kapwanga	Regional Director
Richard Hubbard	Non-Executive Director
Nghiningiluandubo Kashume	Non-Executive Director
Peter Miller	Non-Executive Director
Yusuf Surtee	Non-Executive Director

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Canada and Namibia

Consultants

Marine & Coastal Geo-Consultants
Steffen Robertson & Kirsten (UK) Ltd.

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